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TAGS: ECON ETRD EINV CU IT
SUBJECT: ITALY'S TRADE AND INVESTMENT WITH CUBA

REF: ROME 3298

SUMMARY

¶1. (U) Italy is Cuba's eighth-largest trading partner and consistently runs a large trade surplus with Cuba. Italian exports to Cuba increased in 2006 after several years of decline, while imports remain limited. Foreign direct investment, focused on the tourism and telecom sectors, has declined in recent years due to Cuban government interference. There have been no new joint ventures or major business agreements in the past several years. End summary.

ITALY-CUBA TRADE

Italy's Foreign Trade with Cuba (millions of euro)
(Source: Italian State Statistical Agency (ISTAT))

	Exports	Imports	Balance
2001	280.2	15.6	264.6
2002	248.9	15.7	233.2
2003	232.5	13.7	218.8
2004	179.9	13.3	166.6
2005	198.3	9.5	188.8
2006*	209.1	12.3	196.8

*Provisional figures for January-September 2006

¶2. (U) Italian exports to Cuba will continue to increase in ¶2006. Italy's main exports of machinery and transport equipment are on pace to rise 178 percent over 2005. Other substantial increases are in railway vehicles, trailers, machine tools, minerals, petroleum products, and copper.

CUBAN OFFICIAL DEBT WITH ITALY

¶3. (U) As of February 2005, SACE, the Italian export insurance agency, held roughly USD 300 million of official debt from Cuba. These amounts represent short-term trade-related credits for which the GOC has defaulted and Sace, as the insurer, now holds. For this reason, SACE has stopped insuring trade credits for exports to Cuba. Lorenza Chiampo, SACE's official responsible for risk countries, confirmed that payment problems meant "our insurance policy towards Cuba is at an end."

ITALIAN INVESTMENT IN CUBA

¶4. (U) As of December 2006, Italy's 40 joint ventures in Cuba make Italy the third-largest foreign investor in Cuba, following Spain and Canada. The number of joint ventures is

down from the 2003 high of 51, a drop Italian MFA Office Director for Central America and the Caribbean Paolo Miraglia attributes to GOC efforts to recentralize and consolidate economic power. In a December 13 meeting with Econoff and Poloff (reftel), Miraglia also noted that there were no new agreements or joint ventures during the past year, and that Italian companies had abandoned a few smaller ventures.

¶5. (U) Italy's largest investment in Cuba is Telecom Italia's (TI) 27 percent stake in Cuban telecom parastatal Empresa de Telecomunicaciones de Cuba S.A. (ETECSA). ETECSA is the monopoly provider of telephone, internet and wireless services in Cuba. TI's interest in ETECSA is held through TI's Belgium-based subsidiary, STET International. The GOC owns the remaining 73 percent of ETECSA. TI's investment in ETECSA is valued at 300 million euro, making it the second largest foreign investment in Cuba. Profit figures from ETECSA are unavailable, although TI declared a profit of 35 million euro from ETECSA through September of 2006.

¶6. (U) Under an agreement with the GOC, TI can appoint ETECSA's Deputy Administrator and half of its Board of Directors, plus one, giving TI control of ETECSA's Board of Directors. TI also provides ETECSA technical assistance. TI receives USD 900,000 per year through 2006 for fixed line assistance, and 950,000 euro per year for mobile assistance through 2009. The Cuban Minister for Information and Communications recently fired ETECSA's President on allegations of corruption and replaced him with a GOC-selected appointee, a good example of the GOC ability to interfere with business operations.

TOURISM

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¶7. (U) Cuba is the leading Caribbean destination for Italian tourists. The Italian hotel group Cascina entered into a USD 22 million joint venture with Cubanacan, and has built two resorts in Santa Lucia and Varadero. The Italian firm Seata International also entered into a joint venture with Cubanacan to form Vero S.A., which built several hotels in Cayo Coco Key and Varadero.

COMMENT

¶8. (U) While Italy remains an important trading partner for Cuba, Italian trade remains relatively small, largely due to the difficult business environment and GOC interference. However, if a new era of economic liberalization were to emerge, Italian companies could begin to market Italian goods and services more aggressively, while investing more to capitalize on their Castro-era investments.
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